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September 3, 2015

VIA HAND DELIVERY

Jean D. Jewell, Secretary
Idaho Public Utilities Commission
472 West Washington Street
Boise, Idaho 83702

Re: Case No. IPC-E-15-17
Long Term Program Contract with Siemens Energy, Inc. – Idaho Power
Company's Reply Comments

Dear Ms. Jewell:

Enclosed for filing in the above matter please find an original and seven (7) copies of Idaho Power Company's **Redacted** Reply Comments. In addition, an original and seven (7) copies of the **confidential** pages of the Reply Comments are provided separately.

Please handle the confidential information in accordance with the Protective Agreement executed in this matter.

Very truly yours,



Lisa D. Nordstrom

LDN:csb
Enclosures

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Attorney for Idaho Power Company

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER)	
COMPANY'S APPLICATION FOR)	CASE NO. IPC-E-15-17
APPROVAL OF LONG-TERM)	
MAINTENANCE PROGRAM CONTRACT)	IDAHO POWER COMPANY'S
WITH SIEMENS ENERGY, SALE OF)	REDACTED REPLY COMMENTS
SPARE PARTS INVENTORY TO SIEMENS)	
ENERGY, AND DEFERRAL OF)	
ASSOCIATED COSTS)	

Idaho Power Company ("Idaho Power" or "Company") respectfully submits the following Reply Comments in response to comments filed by the Idaho Public Utilities Commission ("Commission") Staff ("Staff") and the Industrial Customers of Idaho Power ("ICIP"). In these Reply Comments, Idaho Power wishes to clarify or respond to issues regarding the Company's proposed accounting treatment raised in Staff's and ICIP's comments.

I. BACKGROUND

On June 5, 2015, Idaho Power applied to the Commission for an order: (1) approving a Long Term Program ("LTP") Contract with Siemens Energy, Inc.

("Siemens"), (2) approving the transfer and sale of certain assets to Siemens pursuant to *Idaho Code* § 61-328, and (3) approving the Company's proposed accounting treatment of costs associated with the LTP Contract. The Company did not request to change customer rates in the context of this docket.

On August 27, 2015, Staff and ICIP filed comments in this docket. On pages 8-9 of its Comments, Staff recommends that the Commission approve the LTP Contract with Siemens, approve the sale and transfer to Siemens of \$21.9 million in spare parts for the Company's gas plants, and approve the following accounting treatment:

- Defer the initialization/initiation fees to a regulatory asset to be amortized over the remaining life of each asset.
- Transfer of the initial spare parts net book value (approximately \$21.9 million, subject to true-up) and associated tax expense (approximately \$1.8 million, subject to true-up) to a regulatory asset to be amortized over the life of the plant to which the initial spare parts are associated.
- No carrying charge on any of the regulatory assets.

ICIP supports the Company's Application but requests the Commission reject the carrying charge on the regulatory assets proposed by the Company at its overall rate of return. ICIP Comments at 7. If, however, the Commission insists on a carrying charge, ICIP states it should be at the Company's current cost of debt. *Id.*

II. IDAHO POWER'S REPLY

Idaho Power acknowledges Staff's and ICIP's review and agrees with the conclusion of both parties that a LTP Contract with Siemens will provide a lower cost maintenance option for the Company's gas plants over the life of the agreement by

leveraging Siemens' pool of inventory, outage resources, and technical expertise when compared to the Company's current case-by-case maintenance approach with Siemens. Likewise, both parties support the transfer and sale of the initial spare parts to Siemens with Staff concurring "that the transaction satisfies the three-part test in *Idaho Code* § 61-328." Staff Comments at 5. In the discussion that follows, Idaho Power responds to specific recommendations of Staff and ICIP regarding the Company's proposed accounting treatment of the transaction.

A. Idaho Power Should Be Authorized to Defer to a Regulatory Asset the Entirety of the Initiation Fees.

While the LTP Contract provides significant benefits to customers over the life of the contract, absent Idaho Power's requested accounting treatment, the financial impact to the Company in the first few years is considerable, primarily attributable to the initiation fees and net tax expense. The initiation fees serve as a prepayment toward lower cost services that will be performed by Siemens over the life of the LTP Contract; the expense is paid up front by Idaho Power, a cost borne by shareowners, for work performed throughout the duration of the contract, providing cost savings benefits to customers in the future. Staff agrees and acknowledges "the initiation fees serve as a prepayment toward future maintenance expenses" and further acknowledges that the initiation fees will be used toward milestone payments and other maintenance that contribute to the delivery of services to customers when scheduled maintenance outages for the plants occur. Staff Comments at 7-8. Yet, Staff also states Idaho Power should, using the historical 89 percent capital and 11 percent operations and maintenance expense split for gas plant maintenance, capitalize approximately \$ [REDACTED] and expense approximately \$ [REDACTED] of the initiation fees. *Id.* This would result

in a \$[REDACTED] expense today borne by shareholders for work performed and cost savings benefits received by customers in the future, creating a mismatch of costs and benefits and the inability of Idaho Power to earn a return on its investment. Nevertheless, in its final recommendation on page 8 of its Comments, Staff proposes the Commission authorize the deferral of initiation fees to a regulatory asset. The Commission should find that, in order to limit financial harm and better align expenses with work performed, the Company is authorized to defer to a regulatory asset the entire \$[REDACTED] in initiation fees.

B. The Amortization Period of the Regulatory Asset Should Equal the Length of the LTP Contract.

Idaho Power proposed to amortize the balance of the regulatory asset, the initiation fees plus the sum of the net book value of the initial spare parts and net tax expense, over the life of the contract to better align the expense recognition with the work performed by Siemens. Application at 6. Staff, however, supports amortization over the remaining life of each asset; “i.e., on the same schedule as the associated plant.” Staff Comments at 7-8. While Idaho Power believes it is appropriate to apply a 20-year amortization period to the requested regulatory asset to align with the estimated duration of the LTP Contract, the Company can accept Staff’s proposal to match the amortization period with the remaining life of the associated plant.

C. Idaho Power Should Have the Opportunity to Earn a Return on the Entire Unamortized Balance of the Regulatory Asset No Later Than the Next Revenue Requirement Proceeding.

The Company requested, and Staff and ICIP agree, approval to defer to a regulatory asset the sum of initiation fees and the net book value of the initial spare parts plus the associated net tax expense. In addition to the deferral, Idaho Power

requested approval to accrue a carrying charge on the initiation fees and \$2.9 million of the initial spare parts because those amounts have not yet been included in the Company's authorized rate base. The entire amount of the regulatory asset—i.e., the sum of the net book value of the initial spare parts and net tax expense plus the initiation fees—provide customers the benefit of lower contract costs over the life of the LTP Contract.

Staff, however, states that it does “not support, under any scenario, interest or an accrual of return on the \$2.9 million of the initial spare parts that will be returned to Siemens' possession when the contract takes effect.” Staff supports its position with a belief that “[t]hese assets would not be ‘used and useful’ because the Company would no longer possess them.” Staff Comments at 8. Staff clarifies that “[w]hen parts are actually placed in service, they may be capitalized as a transfer from the regulatory asset and included in rate base in the next general rate case at the then authorized rate of return.” Staff Comments at 8. The Company disagrees with the Staff's understanding of the purpose and appropriate regulatory treatment of the initial spare parts.

First, it is important to clarify that the initial spare parts at issue in this case are parts that are in service today and are already “used and useful.” These turbine components are costly, proprietary, and have lead times up to 48 weeks. When parts are removed from the combustion turbines, the parts are retired, inspected, and repaired. Once refurbished, they are placed back in service to stand ready for use by Idaho Power. The parts are kept on hand to maintain plan availability in anticipation of maintenance outages and therefore considered used in the generation of electric

energy. When the initial spare parts are transferred to Siemens under the LTP Contract, Siemens will ensure that spare parts are available and stand ready for use by the Company when the need arises. Consistent with treatment of other utility spare parts inventory, initial spare parts receive rate base treatment while in inventory as “spare” parts in addition to when the parts are installed for use in the generation units. Consistent regulatory treatment should exist for the regulatory asset that is established in place of the initial spare parts being transferred to Siemens.

Next, Staff appears to suggest that a return on deferred amounts should be tied to the maintenance schedule of the plants by recommending amounts included in the regulatory asset and associated with the net book value of the initial spare parts are only eligible for rate base treatment once Idaho Power makes milestone payments to Siemens. “If the Company’s proposal is accepted, Staff recommends that the Commission not allow a carrying charge before 2016 when the first scheduled maintenance outage for the plants occurs. This is when the initiation fees will be used toward milestone payments and other maintenance that contributes to the delivery of service to customers.” Staff Comments at 8. While scheduled maintenance for the gas plants and payments to Siemens occur periodically over the life of the LTP Contract, Siemens is also responsible for performing unscheduled maintenance throughout the duration of the contract. The initiation fees serve as a prepayment toward such services. Simply put, maintenance activities at the gas plants and services provided by Siemens are independent of payments made by Idaho Power and therefore should not be tied to the current rate base treatment of the initial spare parts.

Finally, on page 9 of Staff's Comments, Staff recommends the Commission authorize "[n]o carrying charge on any of the regulatory assets." Likewise, ICIP urged "the Commission to reject the carrying charge on the regulatory asset proposed by the Company" ICIP Comments at 2. Idaho Power should have an opportunity to earn a return on the entire regulatory asset, which includes the sum of initiation fees and the net book value of the initial spare parts plus the associated net tax expense. Any other treatment of the net book value of the initial spare parts would be contrary to treatment received today. And, without the ability to rate base the entire amount of the regulatory asset, shareowners bear upfront investments without corresponding benefits, resulting in a financial disincentive to look for such opportunities to manage costs over the long term.

D. Idaho Power Requests Assurance that the Entire Regulatory Asset Authorized in this Case Be Eligible For Rate Base Treatment in the Company's Next Revenue Requirement Proceeding.

Should the Commission agree with Staff that a regulatory asset established in this case should not immediately receive a carrying charge, Idaho Power requests that, at a minimum, the Commission assure the Company that it will have the opportunity to include the entire regulatory asset in rate base at the time of the next rate proceeding and earn a return on the unamortized balance of that regulatory asset. Both Staff and ICIP reviewed the proposed LTP Contract with Siemens and the Company's revenue requirement analysis presented in Exhibit No. 1 to Ms. Waites' testimony. Based on that review, Staff and ICIP both concluded that the LTP Contract with Siemens will result in cost savings benefits for customers as compared to a self-managed maintenance scenario. In order to achieve these cost savings benefits for customers, Idaho Power

must pay Siemens an upfront initiation fee of \$[REDACTED] and transfer ownership of the initial spare parts with a net book value of \$21.9 million. Because the Commission has the ability to assess the prudence of these investments today, the Company requests that the Commission assure the Company that the entire regulatory asset approved in this case be eligible for rate base treatment in the Company's next revenue requirement proceeding. Without such assurance, pursuant to the contract's PUC Approval provision, Idaho Power will reevaluate the business case of entering into the LTP Contract with Siemens under its current terms and reassess the associated financial risk.

III. CONCLUSION

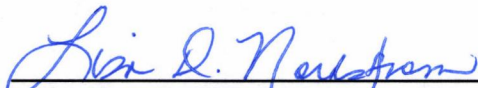
The LTP Contract with Siemens will provide a lower cost maintenance option for the Company's gas plants over the life of the agreement by leveraging Siemens' pool of inventory, outage resources, and technical expertise when compared to the Company's current case-by-case maintenance approach with Siemens. Both Staff and ICIP agree the Commission should approve the LTP Contract and the transfer and sale of the initial spare parts to Siemens pursuant to *Idaho Code* § 61-328. If the Commission is persuaded to accept any of the Staff's or ICIP's recommendations regarding the appropriate regulatory treatment for the LTP Contract costs, Idaho Power requests, at a minimum, the Commission issue an order clarifying and explicitly authorizing the following regulatory treatment:

- The deferral to a regulatory asset the sum of the entire initiation fee and the net book value of the initial spare parts plus the associated net tax expense with amortization to begin coincident with the Effective Date of the LTP Contract.

- An amortization period for the regulatory asset equal to the length of the LTP Contract or a period consistent with the remaining life of the associated plant.
- The entire unamortized balance of the regulatory asset approved in this case will be eligible for rate base treatment in the Company's next revenue requirement proceeding.

For the reasons set forth in these Reply Comments, Idaho Power respectfully requests that the Commission issue its order (1) approving the LTP Contract with Siemens, (2) approving the transfer and sale of certain assets to Siemens pursuant to *Idaho Code* § 61-328, and (3) approving the Company's proposed accounting and regulatory treatment of costs associated with the LTP Contract.

DATED at Boise, Idaho, this 3rd day of September 2015.



LISA D. NORDSTROM

Attorney for Idaho Power Company

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 3rd day of September 2015 I served a true and correct copy of IDAHO POWER COMPANY'S **REDACTED** REPLY COMMENTS upon the following named parties by the method indicated below, and addressed to the following:

Commission Staff

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